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Indonesia

Dairy and Products

Annual

2003

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Report Highlights:
Indonesia's domestic production covers only 30 percent of Indonesia's total dairy consumption requirements, opening a market opportunity for imports of NFDM and FFDM. In CY02, the demand for dairy products in Indonesia grew 10 percent to 193,000 MT, compared to 178,000 MT in CY01. In CY03, Indonesia is expected to import 125,000 MT of NFDM and 35,000 MT of FFDM to meet consumption needs. To take advantage of this growth in import demand, U.S. suppliers will have to compete with traditional suppliers like New Zealand and Australia.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
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Executive Summary

Indonesia's growing demand for dairy products have outpaced the domestic production capability, leaving a wider window of opportunity for imported dairy products. The short fall in domestic milk production is considered a problem that needs to be addressed by both the GOI and Indonesian dairy industry. The GOI in concert with the industry continuously run several programs to encourage and increase productivity. However, the dairy industry must still continue to rely on milk solid imports, primarily NFDM to fulfill short domestic supplies. Dairy products are primarily consumed as powdered milk, sweetened condensed milk, and ready to drink milk. Today, as the overall dairy consumption has already returned to pre-crisis levels, U.S. NFDM which entered the market under food aid programs since 1999, has started to stimulate commercial transactions. However, as a price sensitive market, Australia and New Zealand, with an obvious freight advantage and a long history in the Indonesian market, are expected to continue dominating the market (over 50 percent combined).

Production

Indonesia's domestic milk supply is primarily sourced from approximately 120 dairy cooperatives, which consist of nearly 100,000 dairy farmers with 2-3 cows each. Ongoing problems of poor dairy cattle feeding systems, farm management, herd replacement quality, acquisition and distribution systems, and unfavorable weather has caused low productivity, poor milk quality, and a short lactating period for dairy cattle. Post's total fresh fluid milk production forecast for CY02 is 400,000 MT, fulfilling 30 percent of the total demand. The GOI and the Indonesian milk industry association has initiated programs, such as **providing technical assistance and soft loans**, to support the Union of Indonesian Dairy Cooperatives. **However, the results of these programs** have been discouraging, leaving the industry incapable of production growth rate and unable to keep up with growing demands. Therefore, unless the dairy cattle number is significantly multiplied and dairy farming condition are significantly improved, the dairy industry/producers must continue to rely on milk solid imports. Nonetheless, the Union of Indonesian Dairy Cooperatives ultimate goal is to improve domestic fresh **fluid milk production by an average of 15 percent per year by 2010. The GOI estimates that Indonesia's milk demand will increase from 6 liters/capita (current demand) to 16 liters/capita in 2010 (total dairy consumption demand is estimated to reach 4 million MT), the population is also expected to climb to 245 million (the current population is approximately 215 million)**.

Domestic fluid milk production is primarily used for whole milk powder production. Despite the slow growth rate in the local milk supply, the demand for FFDM is expected to grow at 10 **percent per year**, and market opportunities for imported FFDM will continue. In CY03 post forecast for FFDM production **increased 10 percent to 55,000 MT, and total use is expected to increase 10 percent** to 92,000 MT over the previous year. The shortage in domestic production and use will have to be met through imports, as in previous years. Because domestic milk production is low, Indonesia does not produce any NFDM. Domestic NFDM requirements are met entirely by imported products.

Consumption

The Indonesian economic crisis in 1998, did not have a significant long-term impact on the domestic dairy industry. Overall dairy consumption has already returned to pre-crisis levels. Decentralization has caused economic and trade activities at the sub-district level to grow, which has positively effected the ability of middle to low income population in rural areas to increase their consumption of dairy products. In addition, the development of community health and nutrition awareness has played a role in the growth of dairy consumption by 10 percent per year. As the economic situation and distribution infrastructure for dairy products improve, this growth will likely increase. All dairy plants in Indonesia are currently located on the island of Java, making distribution of products outside of this island difficult, due to poor infrastructure such as refrigeration, transportation and roads. 70 percent of dairy products are only available and consumed in urban areas of Java. The distribution of the remaining 30 percent of dairy products available on the market (for rural areas outside Java) are limited, and the high costs associated with distribution drive up consumer prices, making it too expensive for low income consumers to afford.

Dairy products are primarily consumed as powdered milk (used for making cream, skim milk, infant and children formula, and formula for pregnant and lactating women), sweetened condensed milk, ready to drink milk (such as fresh milk, UHT, pasteurized and homogenized dairy mix), and a small portion for other dairy products (such as cheese, butter, ice cream, whey and yogurt). Powdered milk and ready to drink milk products are mainly consumed by the middle-upper income population. In CY 02, the latest marketing trend to stimulate consumer growth (excluding raw material for industry) is the segmentation of specialized milk products, such as formulas and attractive variety size packaging for end customers. Heavy advertising has stimulated 13% increase in consumption for this item. Ready to drink milk consumption has also increased by 15%. On the other hand, sweetened condensed milk (SCM) has a wider market, as SCM is a more affordable dairy product available--production has surpassed pre-crisis levels, 245 MT in CY02, compared to 227 MT in CY01. Retail prices for dairy products are significantly influenced by the raw material prices, which are significantly influenced by the currency exchange rate. Besides the price of imported NFDM, the price of sugar (a key ingredient) plays a significant role in this price elevation. Sugar prices have gone up 50 percent the last year. As the result, the retail price for sweetened condensed milk, which contain 40 percent sugar, has increased 21 percent and the retail price powdered milk has increased approximately 16 percent.

Twenty percent of the market for dairy products consists of imported finished dairy products, such as pasteurized skim and full cream milk, milk formulas (for infant, children, pregnant and lactating women, elderly). Imported powdered milk products are perceived as a high quality, specialized formulas, which carry premium prices.

Other dairy products such as cheese, butter, ice cream, whey, and yogurt are domestically produced or imported in relatively small quantities. Total consumption for cheese and yogurt in CY 02 was around 8,000 MT and 300 MT respectively, which was 20 percent more than in CY 2001. The lack of awareness for such products and poor cold chain infrastructure are key constraints in expanding the market for these high value dairy products in Indonesia. The highest demand for these items are usually during the holiday seasons (Ramadan and Christmas) for the food service, bakery, and confectionery industries, as Indonesians prepare for festivities.

Price

In the first and second quarter of CY 03, NFDM prices (C&F) increased from an average of US$ 1350/MT to US$ 1700/MT due to low stocks in Australia, New Zealand, and Europe. However, industry sources forecast that the NFDM price in CY 03 will fall back to an average of US$ 1600/MT for remainder CY 03.

as of April 21, 2003, Comparative Price for Powdered Milk

Country of Origin	NFDM in US $ (C&F)	FFDM In US $ (C&F)
Australia	1700 -1950/MT	1800 -1950/MT
New Zealand	1700 -1950/MT	1800 -1950/MT
United States	1550 -1700/MT	1650 -1800/MT
European Union	1550 - 1650/MT	1650 -1750 /MT

Source: Post industry contacts.

Comparison of Prices for Local Fresh Milk & Imported Milk Solids in CY02

Product	Price in Rupiah (Rp) (US$1 = Rp.9000)
Domestically Produced Fresh Milk – 12% milk solid content	Rp.1700-1850/kg
Average Imported 12% milk solids	Rp.1800/kg

Source: Post industry contacts.

As shown in the table above, locally produced milk prices ranged between Rp. 1700-1850/kg with 12 percent milk solid content, while import prices for similar milk solids are @ Rp. 1,800/kg, before adding the import duty (5%) and VAT (10%). Thus, the local price remained comparable to average import prices. On February 1998, the Indonesian Dairy Industry Association signed an MOU with the Union of Indonesian Dairy Cooperatives. This MOU replaced the Government policy which regulated all dairy manufactures in Indonesia to use a certain ratio of local milk supply versus imported milk products. In the signed MOU, the milk is required to be processed and the total supply must be sold domestically, as long as it meets competitive market prices and quality is up to par.

Stocks

Unless there is a significant fluctuation in price or world milk stocks are limited, Indonesia's dairy processors keep an estimated two months supply (approximately 19,000 MT of total milk powder--- 15,000 MT NFDM and 4,000 MT FFDM) in their plant warehouses. Producers contract up to 3-4 months in advance for imported products to guarantee supply.

Trade

As growth in domestic use is expected to outpace domestic production, the import demand for NFDM and FFDM are forecast to reach up to 10 percent or about 125,000 MT and 35,000 MT respectively in 2003. The import duty on milk powder is 5 percent and value added tax is 10 percent (as a raw ingredient). Recently the GOI assembled a tariff team as the official government agency under the Ministry of Agriculture to review all tariffs on imported agricultural products. This tariff team's main function is to protect farmers, and is expected to be a key player for making GOI policy as it negotiates it's way through the ASEAN Free Trade Agreement (AFTA) in 2003. One of its priorities is to protect local dairy industry is the proposal of a 40 percent import duty applied on all finished dairy products.

With an obvious freight advantage and long history in Indonesian market, Australia and New Zealand continue to dominate the Indonesian market for milk and dairy products. In 2001, over 50% of the milk/products supply was imported from Australia and New Zealand. Their market share was even more significant in 2002 (estimated 60 percent market share combined). Beside price as determining factor, trade sources indicate that U.S. dairy products will have better chance of entering the market if there is a representative office in the country and if there are improvements in milk depot throughout the region to expedite communication and shipping time.

In FY 2001, half of the NFDM imported from U.S. was attributed to USDA Section 416(b) program. This program was implemented by Land O'Lakes for an Indonesian "School Milk Program". Under this authority approximately 17,000 MT of NFDM has been awarded for this program in Indonesia.

Industry sources report that powdered milk (NFDM and FFDM) from New Zealand were shipped to Indonesia solely for repackaging and a re-export to the Middle East as food aid. The program was coordinated among several Middle Eastern countries along with the New Zealand Dairy Board. In 2002, this program accounted for exports of 14,000 MT of NFDM and 12,000 MT of FFDM. This program is expected to continue in CY03.

Over the last three years, the Philippines was the second largest supplier of FFDM to Indonesia (over 6,300 MT in CY00, 8,500 MT in CY01 and approximately 9,300 MT in CY02). However, according to post the origin of the FFDM was actually from New Zealand and Australia, which were trans-shipped via the Philippines.

Marketing

The Indonesian dairy industry is dominated by five dairy manufacturers (Nutricia/ Sarihusada, Nestle Indonesia, Friesche Vlag Indonesia, Indomilk, and Ultrajaya) which account for 90 percent of the total sales in volume in the country. With the positive forecast for consumer demand, all manufacturers are planning to add new equipment to expand (by two times) their capacities. Manufactures are also planning to expand their market to include exports of finished dairy products to neighboring countries, as they enjoy low costs for land and labor.

U.S. Food Aid Impact

USDA food aid programs have also been positive force in increasing awareness of U.S. dairy products in Indonesia. These programs have provided exposure for U.S. dairy product in the Indonesian market among importers and manufacturers. U.S. dairy products are recognized as high quality. In addition, these programs have provided Indonesian children and families to a great exposure of the benefits of milk nutrition. As a result, import of U.S. dairy products continue to increase every year. In CY 01, 11,500 MT NFDM was imported from the U.S. under food aid, while 5,500 MT were commercial transactions stimulated by the food aid programs. The proportion for commercial transactions then increase in CY 02 to be 1:1, totaling of around 14,000 MT NFDM imported from U.S. Nevertheless, Indonesia is a price sensitive market, thus the ability of U.S. suppliers to take advantage of this opportunity will depend on their ability to provide competitively priced products.

USDA support for a "School Milk" program, initiated in 1999, responsed to needs resulting from Indonesian's economic crisis in 1998. The program had a positive impact on child nutrition. In 1999, 5,000 MT of NFDM was provided through a government-to-government agreement to 410,000 elementary school children who received 200 ml of milk three times a week for one year. This program was continued in FY2000, through the monetization of an additional 8,500 MT of NFDM and 10,000 MT of wheat in two years cycles. Land O'Lakes implemented the program under the agreements, and expanded the program to distribute milk to nearly 500,000 elementary schools children and also formulate a pilot project of distributing biscuits to approximately 50,000 school children. An additional program was extended in FY01, which granted 4,450 MT of NFDM and 4,000 MT under an FY 03

Section 416(b), which ensures the program cycle until 2004.

Aside from the School Milk Program, in 1999, under a USDA Section 416(b) program 3,000 MT of NFDM was provided for a "Susu Peduli" or Milk Care program. Through this program, sweetened condensed milk produced from the NFDM and distributed to families who fell below the poverty line. This program has also been extended twice (3,000 MT of NFDM in both FY00 and FY01), which will end in mid 2003.

The last program funded by the monetization of 1,200 MT and 1.7 MT of NFDM in **FY02 and FY 03 respectively**, is the Soy Enriched School Snack Noodle program and a micro credit program for small scale food processors by the Private Voluntary Organization International Relief Development.

While no similar humanitarian feeding programs are run by other dairy supplying countries, Australia, Denmark, and Canada are providing grants for technical support and equipment to Indonesian dairy farmers. Indonesia is also receiving support from Japanese genetic experts for research on improving the success rates for frozen semen.

PSD Table						
Country	Indonesia					
Commodity	Dairy, Dry Whole Milk Powder				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	12	4	15	4	19	4
Production	54	45	60	50	0	55
Intra EC Imports	0	0	0	0	0	0
Other Imports	15	35	15	33	0	35
TOTAL Imports	15	35	15	33	0	35
TOTAL SUPPLY	81	84	90	87	19	94
Intra EC Exports	0	0	0	0	0	0
Other Exports	1	22	1	20	0	22
TOTAL Exports	1	22	1	20	0	22
Human Dom. Consumption	65	58	70	63	0	70
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	65	58	70	63	0	70
TOTAL Use	66	80	71	83	0	92
Ending Stocks	15	4	19	4	0	4
TOTAL DISTRIBUTION	81	84	90	87	0	96
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Indonesia		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan-Dec	Units:	MT
Exports for:	2000		2001
U.S.	0	U.S.	0
Others		Others	
Malaysia	871	Iraq	7,898
Pakistan	425	Singapore	4,366
Taiwan	368	Iran	3,704
Hong Kong	230	Nigeria	2,299
New Zealand	187	Malaysia	1,676
Sri Lanka	123	Syria	819
Bangladesh	49	Taiwan	675
Singapore	40	Sudan	248
Micronesia, Fed Stat	35	New Zealand	187
Netherlands	35	Hong Kong	144
Total for Others	2,363	Total for Others	22,016
Others not Listed	18		444
Grand Total	2,381		22,460
(HS: 040221&40229)			

Export Trade Matrix			
Country	Indonesia		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan-Nov	Units:	MT
Exports for:	2001		2002
U.S.	0	U.S.	0
Others		Others	
Iraq	5,744	Iraq	11,541
Singapore	1,800	Singapore	5,044
Nigeria	1,537	Malaysia	1,694
Malaysia	1,258	Taiwan	512
Taiwan	477	Hong Kong	243
Syria	132	Netherlands	157
New Zealand	141	New Zealand	145
Hong Kong	109	Pakistan	142
Sudan	94	Sri Lanka	128
Bangladesh	52	Spain	127
Total for Others	11,344		19,733
Others not Listed	253		188
Grand Total	11,597		19,921

Import Trade Matrix			
Country	Indonesia		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan-Dec	Units:	MT
Imports for:	2000		2001
U.S.	328	U.S.	193
Others		Others	
New Zealand	12,103	New Zealand	15,403
Philliphines	6,385	Philliphines	8,536
Australia	2,961	Australia	3,875
Denmark	1,804	South Africa	2,555
Netherlands	574	Denmark	2,314
Germany	448	Spain	600
United Kingdom	286	France	552
Malaysia	280	Netherlands	345
Ireland	160	Singapore	321
Thailand	150	Germany	239
Total for Others	25,151		34,740
Others not Listed	241		413
Grand Total	25,720		35,346
(HS: 040221&40229)			

Import Trade Matrix			
Country	Indonesia		
Commodity	Dairy, Dry Whole Milk Powder		
Time period	Jan-Nov	Units:	MT
Imports for:	2001		2002
U.S.	0	U.S.	11
Others		Others	
New Zealand	11,809	New Zealand	11,369
Philliphines	4,129	Phillippines	9,361
Australia	2,727	Australia	7,122
South Africa	1,681	Netherlands	1,009
Denmark	945	France	912
Spain	600	Singapore	707
Singapore	162	Denmark	567
Germany	160	Germany	523
Netherlands	91	Malaysia	419
India	84	Belgium	401
Total for Others	22,388		32,390
Others not Listed	339		425
Grand Total	22,727		32,826

PSD Table						
Country	Indonesia					
Commodity	Dairy, Milk, Nonfat Dry				(1000 MT)	
	Revised	2001	Preliminary	2002	Forecast	2003
	Old	New	Old	New	Old	New
Market Year Begin		01/2001		01/2002		01/2003
Beginning Stocks	15	15	20	15	20	15
Production	0	0	0	0	0	0
Intra EC Imports	0	0	0	0	0	0
Other Imports	100	98	110	110	0	125
TOTAL Imports	100	98	110	110	0	125
TOTAL SUPPLY	115	113	130	125	20	140
Intra EC Exports	0	0	0	0	0	0
Other Exports	30	16	30	15	0	15
TOTAL Exports	30	16	30	15	0	15
Human Dom. Consumption	65	82	80	95	0	110
Other Use, Losses	0	0	0	0	0	0
Total Dom. Consumption	65	82	80	95	0	110
TOTAL Use	95	98	110	110	0	125
Ending Stocks	20	15	20	15	0	15
TOTAL DISTRIBUTION	115	113	130	125	0	140
Calendar Yr. Imp. from U.S.	10	17	15	15	15	15
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0

Export Trade Matrix			
Country	Indonesia		
Commodity	Dairy, Milk, Nonfat Dry		(HS: 040210)
Time period	Jan-Dec	Units:	MT
Exports for:	2000		2001
U.S.	57	U.S.	27
Others		Others	
Iraq	22,181	Iraq	14,412
Iran	2,825	Iran	620
British Indian Ocean	1,927	East Timor	419
Micronesia	354	Micronesia	144
Singapore	288	Phillippines	135
Taiwan	202	Thailand	72
Nigeria	162	Portugal	65
New Zealand	15	Singapore	41
Thailand	100	New Zealand	41
Mauritius	75	Hong Kong	29
Total for Others	28,129		15,979
Others not Listed	515		39
Grand Total	28,701		16,045

Import Trade Matrix			
Country	Indonesia		
Commodity	Dairy, Milk, Nonfat Dry		(HS: 040210)
Time period	Jan-Nov	Units:	MT
Imports for:	2001		2002
U.S.	13,163	U.S.	14,515
Others		Others	
New Zealand	22,379	New Zealand	33,061
Australia	15,011	Australia	25,333
Netherlands	7,577	Netherlands	16,941
Ireland	1,888	Czech Republic	3,904
Denmark	1,618	Germany	3,315
Belgium	771	Canada	2,486
Sweden	714	Poland	1,842
France	682	Argentina	1,786
Canada	650	Ireland	980
Poland	600	Finland	918
Total for Others	50,640		90,566
Others not Listed	6,957		565
Grand Total	70,760		105,646

Import Trade Matrix			
Country	Indonesia		
Commodity	Dairy, Milk, Nonfat Dry		(HS: 040210)
Time period	Jan-Dec	Units:	MT
Imports for:	2000		2001
U.S.	3,539	U.S.	17,437
Others		Others	
New Zealand	42,652	New Zealand	30,308
Australia	13,194	Australia	21,417
Netherlands	9,179	Netherlands	11,612
Germany	8,706	Germany	5,528
Ireland	7,491	Ireland	2,741
Belgium	4,328	Denmark	2,222
Singapore	1,068	France	1,087
Canada	756	Belgium	1,073
Denmark	702	Sweden	956
France	698	Canada	870
United Kingdom	680	Poland	803
Finland	596	Finland	750
Total for Others	90,050		79,367
Others not Listed	2,755		1,637
Grand Total	96,344		98,441

Import Trade Matrix			
Country	Indonesia		
Commodity	Dairy, Milk, Nonfat Dry		(HS: 040210)
Time period	Jan-Nov	Units:	MT
Imports for:	2001		2002
U.S.	13,163	U.S.	14,515
Others		Others	
New Zealand	22,379	New Zealand	33,061
Australia	15,011	Australia	25,333
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Belgium	771	Canada	2,486
Sweden	714	Poland	1,842
France	682	Argentina	1,786
Canada	650	Ireland	980
Poland	600	Finland	918
Total for Others	50,640		90,566
Others not Listed	6,957		565
Grand Total	70,760		105,646

Average Retail Prices of Powder Milk and Sweet Condensed Milk				
in Java island				
	2001		2002	
Month	Powder Milk	Sweet Condensed Milk	Powder Milk	Sweet Condensed Milk
	(Rp/400g)	(Rp/397g)	(Rp/400g)	(Rp/397g)
January	13150	4280	15404	5171
February	13225	4290	15450	5206
March	14106	4360	15433	5207
April	14550	4490	15760	5210
May	14750	4550	15283	5195
June	14750	4675	15283	5195
July	14750	4770	15317	5187
August	14850	4770	15325	5220
September	15050	5046	15283	5205
October	14986	5091		
November	15450	5141		
December	15262	5165		
Source: Center for Market Information (PIP), Ministry of Industry & Trade; http://www.dprin.id/pip				
Inflation Rate (Source: Center for Market Information (PIP)):				
September 2002		0.53%		
January - September 2002		6.17%		
Exchange U.S. Embassy rate of US$1 as of Sept 30, 2002:			Rp. 8,970	

Exchange Rate (Rp./1US$) on Period Month Ending Basis												
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
1997	2387	2403	2418	2443	2458	2450	2528	2190	3350	3700	3740	5700
1998	13513	9377	8740	8211	10767	15160	13850	11700	11314	9142	7755	8100
1999	9419	8992	8778	8632	8179	6750	6989	7736	8571	6949	7439	7161
2000	7414	7517	7598	7988	8728	8742	9055	8370	8891	9483	9524	9385
2001	9488	9914	10460	12117	11423	11436	9744	9045	9696	10358	10476	10450
2002	10383	10222	9779	9441	9823	8741	9171	8938	9057	9233	8976	8940
2003	8876	8905	8908	8665								
Source: Central Statistics Agency (BPS-Badan Pusat Statistik) and Business Indonesia Daily Newspaper.												
Note: - April 2003 exchange rate is quoted for Apr. 21, 2003 - BPS data available up to Sep. 2002 Last Update: 4/16/2003 - TR												